

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT – 2014 UNMINED COAL TAXES**

**For The Period
January 01, 2015 Through July 15, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

AUDIT OF THE LESLIE COUNTY SHERIFF'S SETTLEMENT – 2014 UNMINED COAL TAXES

**For The Period
January 01, 2015 Through July 15, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement – 2014 Unmined Coal Taxes for the Leslie County Sheriff for the period January 01, 2015 through July 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected 2014 Unmined Coal taxes of \$1,537,346 for the districts, retaining commissions of \$47,589 to operate the Sheriff's office. The Sheriff distributed 2014 Unmined Coal taxes of \$1,489,686 to the districts. Taxes of \$71 are due to the districts from the Sheriff.

Report Comments:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements And Reconciliations
2014-002 The Incorrect Tax Rate Was Used To Calculate School Taxes

Deposits:

The Sheriff's deposits as of March 3, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,638,186

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT – 2014 UNMINED COAL TAXES	4
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	9
COMMENTS AND RECOMMENDATIONS	13



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Leslie County Sheriff's Settlement - 2014 Unmined Coal Taxes for the period January 01, 2015 through July 15, 2015 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of July 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period January 01, 2015 through July 15, 2015 of the Leslie County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2016 on our consideration of the Leslie County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Leslie County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements And Reconciliations
2014-002 The Incorrect Tax Rate Was Used To Calculate School Taxes

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a stylized flourish at the end.

Mike Harmon
Auditor of Public Accounts

March 17, 2016

LESLIE COUNTY
 DELANO HUFF, SHERIFF
SHERIFF'S SETTLEMENT – 2014 UNMINED COAL TAXES

For The Period January 01, 2015 Through July 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal	237,380	374,499	834,516	179,878
2012 & 2013 Additional Billings	2,530	4,195	9,084	2,199
Penalties	798	1,260	2,807	605
Gross Chargeable to Sheriff	<u>240,708</u>	<u>379,954</u>	<u>846,407</u>	<u>182,682</u>
<u>Credits</u>				
Exonerations	342	540	1,203	259
Discounts	4,190	6,609	14,746	3,178
Delinquent Unmined Coal	<u>11,824</u>	<u>18,756</u>	<u>41,631</u>	<u>9,127</u>
Total Credits	<u>16,356</u>	<u>25,905</u>	<u>57,580</u>	<u>12,564</u>
Taxes Collected	224,352	354,049	788,827	170,118
Less: Commissions *	<u>9,535</u>	<u>15,047</u>	<u>15,777</u>	<u>7,230</u>
Taxes Due	214,817	339,002	773,050	162,888
Taxes Paid	<u>214,802</u>	<u>339,002</u>	<u>772,994</u>	<u>162,888</u>
Due Districts				
as of Completion of Audit	<u>\$ 15</u>	<u>\$ 0</u>	<u>\$ 56</u>	<u>\$ 0</u>

* Commissions:

4.25% on \$ 748,519

2% on \$ 788,827

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

July 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
July 15, 2015
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Leslie County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 15, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of March 3, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,638,186

Note 3. Tax Collection Period

The unmined coal tax assessments were levied as of January 1, 2014. Unmined Coal Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 13, 2015 through July 15, 2015.

Note 4. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$5,276 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 5. School Taxing District

For the 2014 tax collections, the real estate and tangible tax rates for the Leslie County School were certified incorrectly. The tax bills were printed using 0.566 instead of the approved tax rate of 0.565.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards***

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Leslie County Sheriff's Settlement - 2014 Unmined Coal Taxes for the period January 01, 2015 through July 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 17, 2016. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Leslie County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2014-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

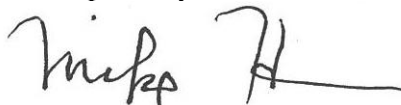
Sheriff's Responses to Findings

The Leslie County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

March 17, 2016

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
DELANO HUFF, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 01, 2015 Through July 15, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements And Reconciliations

The Sheriff's office has a lack of adequate segregation of duties over disbursements and reconciliations because the Sheriff's bookkeeper is responsible for preparing disbursements, preparing monthly reports, and reconciling the bank account. The Sheriff's limited budget prevents him from hiring additional personnel to adequately segregate duties.

A proper segregation of accounting duties is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If segregation of duties was not feasible due to a limited number of staff, strong oversight of these areas should occur and involve the Sheriff or an employee not currently performing any of these functions. If the Sheriff chooses to implement compensating controls, his oversight should be documented on the appropriate source documents. The following are examples of compensating controls the Sheriff could implement:

- The Sheriff, or his designee, can reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The Sheriff can examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

Sheriff's Response: Do [sic] to lack of funding, the Leslie Co. Sheriff's office can not afford to bring someone in to handle the Disbursements and Reconciliations.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-002 The Incorrect Tax Rate Was Used To Calculate School Taxes

The incorrect tax rate was used to calculate school taxes. The correct rate set by the Leslie County Board of Education was \$0.565 per \$100 of assessment. However, the tax bills reflected an incorrect rate of \$0.566 per \$100 of assessment. Although it is the responsibility of the Department of Revenue to prepare the tax bills, the Sheriff's office did not implement internal controls to verify tax bills reflected the correct rates so that taxes were accurately calculated. As a result, taxpayers were erroneously overcharged 0.001 cents per \$100 of assessment. Effective internal controls should be designed to ensure amounts collected are accurate. The Sheriff's office should have implemented controls to verify tax bills reflected the correct tax rates.

Sheriff's Response: For Future tax years we will take the steps to assure that all rates are correct.

